RESPONSIVENESS

OMERS

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

ANNUAL REPORT

1997

RESPONSIBILITY

OMERS

Working together for your retirement

Our Vision

OMERS will be an autonomous, self-funded pension plan managed by and for its members and employers.

OMERS will provide a choice of pension options for employees engaged in the delivery of local government services.

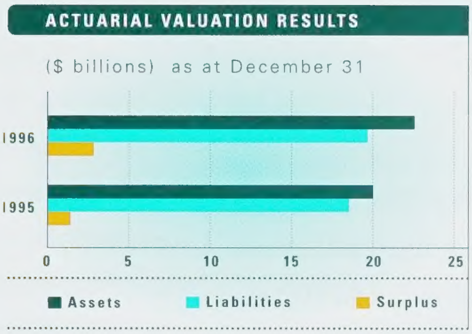
OMERS will keep its "pension promise" through prudent investment and cost effective management.

Our Core Values

"We provide high quality service to all our clients."

"We treat each other with respect, fairness, trust and dignity."

THE PLAN SURPLUS



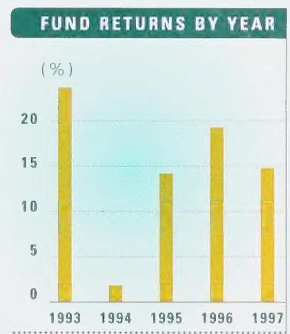
The actuarial valuation of the plan at December 31, 1996 indicates a surplus of $2.8 billion. The plan surplus is projected to grow for the next few years.

The surplus allowed the OMERS Board to implement a series of initiatives that, over the next five years, will save plan members and local government employers a total of $1.5 billion.

PERFORMANCE

The total return for the Fund in 1997 was 14.8%. These earnings are essential to OMERS being able to maintain stable and reasonable contribution rates over the long term, provide full pension indexing, and ensure the long term financial stability of the plan.

In 1997, these earnings also allowed OMERS to begin the process of reducing member and employer contributions by approximately one third for a five year period.



IMPROVING SERVICE

In 1997, OMERS continued with changes to its pension communications system. The new OMERS web site (www.omers.com) was well received by our members and provides an additional vehicle for communications.

The Membership Services System redevelopment project saw considerable progress throughout the year with its construction phase commencing. The project, which includes the rebuilding of the pension administration computer system, will be completed early in 1999 and its improved efficiency will meet members' and employers' needs with faster and more flexible service.

Working together for your retirement

The Ontario Municipal Employees Retirement System (OMERS) was established in 1962 by the Ontario Government as a multi-employer pension plan for employees of local governments in Ontario. A total of 1,129 municipalities, boards, school boards and commissions participate in the plan.

Managed by a 13 member Board appointed by the Ontario Government, OMERS is operated on behalf of local government employees and employers. Five members of the Board are employees of local governments, one is a pensioner, four are officers of the participating employers, two are elected or appointed officials of municipalities or local boards, and one member is a Provincial official.

OMERS is a defined benefit pension plan financed by equal contributions from participating employers and employees, and by the investment earnings of the OMERS Fund.

Our Mission

Our responsibilities are:

- to provide fully-funded pension benefits for reasonable and stable contribution rates,
- to invest the funds prudently, for long-term growth at acceptable risk levels, to meet plan liabilities,
- to distribute timely and accurate pension information to members and employers,
- to provide high quality service to all our clients, in an effective and efficient manner,
- to promote the pension interests of our plan members and employers, and
- to provide a positive and equitable working environment which will attract and retain highly motivated employees.

OMERS accomplishments in 1997 were focused on meeting the changing needs of our employers and members while strengthening the accountability of the Board. It was a year that included such highlights as the approval of a changed investment asset mix, the implementation of a five year surplus management initiative, a strengthened organizational structure for OMERS and the addition of enhanced consultation and communications processes. These successful initiatives were achieved in conjunction with continued solid returns on our investments.

After a comprehensive study and review of possible asset classes, expected returns and risk characteristics, a revised asset mix—or where we place our investments—was adopted for the Fund. Changes were made in the percentage of investment in different assets and, to achieve better diversification, the amount of international investing was increased.

The OMERS pension plan continues to be fully funded with sufficient assets to meet all pension plan liabilities. In fact, the plan is in a surplus position. This surplus allowed the Board to implement a series of initiatives that, over the next five years, will save plan members and local government employers a total of $1.5 billion in contributions.

A one-third reduction in contribution rates puts money back into the pockets of thousands of local government employees across Ontario and saves an equivalent amount for their employers. When local government saves money, local tax-payers also save money—a further benefit to this win-win initiative.

The surplus management initiative is also in keeping with the OMERS philosophy of members and employers sharing equally in contributions, liabilities and surpluses of the plan. The responsiveness of the Board in producing significant savings for the local government sector in a time of financial distress and reorganization was extremely well received.

A comprehensive review of our real estate operations was concluded in 1997. This resulted in all real estate activity being brought in-house under the direct responsibility of the OMERS Board. Restructuring of the real estate group also reintegrated all investment activities of the Fund. Additionally, reorganization of the Investment Division was completed with a refocus on the overall performance of the Fund.

With ongoing changes in real estate markets, a shift in some of the major players, plus the introduction and use of new real estate investment vehicles, the move to a new structure for OMERS was both responsible and prudent.

Responsibility means accountability. Changing organizational structure—as we did for our real estate portfolio—is one way to achieve accountability. Better consultation and communications processes are another way. During 1997, the Board pursued new initiatives in both the content and the frequency of consultations with our diverse membership of 1,129 employers and the various unions and associations. Consensus on the surplus management initiative was achieved as a direct result of this improved consultation process.

In a year that saw some severe market fluctuations, OMERS continued to achieve good investment results. Short-term market fluctuations do not affect the soundness of the plan because the OMERS Fund's investments are geared to the long term. The OMERS Fund grew by $3.7 billion over 1996, closing the year with a return of 14.8 per cent. The total value of the Fund at the end of 1997 was $29.1 billion. The four year annual rate of return was 12.3 per cent, exceeding by a substantial margin the targeted performance required to fully meet the pension promise. In fact, the Fund's consistently strong performance is the major factor driving the Board's surplus management initiatives.

The local government environment continued to shift throughout the year, putting new demands on the OMERS plan. A theme of responsiveness and responsibility means that we will continue our extensive consultation and communications process, advocate on behalf of our plan participants in areas of public policy, protect shareholder interests in the companies we invest in, and continually strive for use of best practices in our own organization.

ROGER RICHARD
Chair

DALE E. RICHMOND
President and CEO

1997 RESULTS

RETURNS BY ASSET CLASS AND THEIR BENCHMARKS

	$ millions invested	% of Fund	**1 year %**	4 years %	10 years %
Total OMERS	29,376.2	100.0%	**14.8**	12.3	11.4
Consumer Price Index			**0.7**	1.2	2.7
Consumer Price Index + 4.25%			**5.0**	5.5	6.9
Fixed Income	10,625.3	36.2%	**10.2**	8.8	10.9
D.S. Barra/Scotia McLeod Universe Bond Index			**9.7**	9.2	11.6
Canadian Stocks	10,366.0	35.3%	**18.2**	16.2	12.4
TSE 300			**15.0**	14.0	11.0
Private Placement-Equity	473.6	1.6%	**30.7**	21.0	8.4
TSE 300			**15.0**	14.0	11.0
International Stocks	5,182.0	17.6%	**16.1**	13.0	13.4
Salomon Global BMI (ex-Canada)			**22.4**	17.1	–
Real Estate (office and retail)	2,729.3	9.3%	**14.8**	8.9	–
Russell Canadian Office & Retail Property Index			**18.5**	8.2	–

THE FUND

The OMERS Fund's investment strategy is to provide long-term, stable growth, balancing a continuing good rate of return with acceptable risk. This strategy again provided solid returns in 1997, allowing the Fund to close out the year at close to $30 billion.

The total return for the Fund in 1997 was 14.8%. These earnings are essential to OMERS being able to maintain stable and reasonable contribution rates over the long term, provide full pension indexing, and ensure the long term financial stability of the plan.

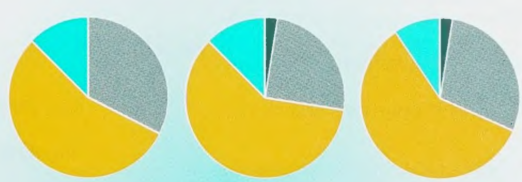
In 1997, these earnings also allowed OMERS to begin the process of reducing member and employer contributions by approximately one third for a five year period. These contribution reductions, which commence in January 1998, are only possible because of a sustainable surplus. Low inflation rates and low wage growth also contributed, but it's the third element of continued high performance in investment returns that allows OMERS to provide these savings to our members and employers.

Asset Allocation

The OMERS investment mix—how our assets are allocated—sets the objectives for both the Fund and for the various investment portfolios within the Fund. The asset mix was changed early in 1997, and the asset allocation as at December 31 is shown in the accompanying graph.

Fund managers were faced with some wild market fluctuations in the latter part of 1997. Despite these fluctuations, the Fund exceeded its benchmark for Canadian equity investment in 1997. Despite the volatility, the new asset mix provides the returns needed to fully fund the plan.

ASSET ALLOCATION



	Old Mix Mid point in target range	New Mix Mid point in target range	Actual Mix (as at December 31, 1997)
Cash	0%	2.5%	2.7%
Debt	32.5%	25.0%	29.1%
Equity	55.0%	60.0%	58.9%
Real Estate	12.5%	12.5%	9.3%

Derivative backing assets have been allocated to their appropriate asset classes.

"Our new asset mix is a response to changing markets, investment vehicles, and levels of risk"

One of the issues that drove the change in the Fund's asset mix was the reduced availability of Canadian government bonds, resulting in less opportunity for investing in fixed income securities within Canada. Because of this and other changes in the Canadian investment environment, OMERS reallocated some of its investments, decreasing the allocation to domestic fixed income and increasing the allocation to foreign bonds and domestic and foreign equities.

Derivatives

Any large and complex fund needs the flexibility to respond quickly when required. The derivatives programme provides that flexibility. Derivatives are used to adjust and rebalance the OMERS Fund's asset mix and international allocation without adversely affecting other portfolios.

OMERS is able to effectively reallocate lower yielding short term money market investments into higher yielding equity and bond markets, reflecting the Fund's new asset mix proportions and markets.

In 1997, the derivative programme's notional value increased from $1.6 billion in 1996 to $3.0 billion at year end.

CONSOLIDATED INVESTMENT ASSETS

Market Value as at December 31, 1997 (000's)			1997	1996
Fixed Income Investments				
Cash and Short Term			**$ 2,759,724**	$ 1,760,895
Ontario Debentures			**804,236**	828,480
Marketable Bonds:		• Canadian	**4,467,437**	3,788,450
		• International	**1,216,488**	446,098
Private Placements – Debt			**112,958**	92,222
Mortgages:		• Residential - Insured	**949,876**	397,263
		• Non-residential	**263,544**	1,170,875
		• Real Estate Held for Resale	**51,000**	69,341
Total Fixed Income Investments			**$ 10,625,263**	$ 8,553,624
Equity Investments				
Stocks				
	Canadian:	• Indexed	**$ 1,738,461**	$ 1,351,577
		• Active	**8,627,555**	8,480,959
	International:	• Indexed	**1,763,630**	1,259,713
		• Active	**3,418,313**	3,098,035
Total Stocks			**15,547,959**	14,190,284
Private Placements – Equities			**473,643**	421,942
Total Equity Investments			**$ 16,021,602**	$ 14,612,226
Real Estate			**$ 2,729,349**	$ 2,450,121
Total Investments at Market Value			**$ 29,376,214**	$ 25,615,971

Fixed Income

Fixed income instruments, as well as equities, continued to perform well in 1997. The Fund's fixed income assets are managed in a number of specific portfolios, with both quantitative and active management styles assisting the Fund in maximizing its performance.

Managed quantitatively, the OMERS Canadian core bond portfolio holds provincial and federal bonds. A Canadian active bond portfolio adds municipal and corporate bonds, as well as an interest rate anticipation strategy.

The foreign bond fund was valued at $1.2 billion at year end. With a return of 6.3%, it outperformed the J.P. Morgan Government Bond (Non-Canada Traded) benchmark of 5.8%.

In addition to being an asset class, money market investments serve two objectives: cash management, and supporting the derivative portfolios. For cash management, investments are in credit instruments with a very short duration to meet the plan's daily cash flow requirements. Assets backing derivatives are necessary to ensure that derivative instruments are entered into only on an unlevered basis.

1997 FIXED INCOME RETURNS VS BENCHMARKS

(1 year)

OMERS maintained the high quality of its mortgage portfolio in 1997 despite a very competitive market. The mortgage department booked $124.9 million in new business in 1997, from a total of $2.3 billion worth of loan proposals reviewed. Interest rates remained low throughout the year, although the yield on new loans is still somewhat higher than that of a Government of Canada bond of a similar term. The return for mortgages in 1997 was 4.2% against the Nesbitt Burns/DS Barra 5 year bond rate benchmark of 7.0% and private debt, at 14.1%, exceeded the Nesbitt Burns/DS Barra 5 year bond rate benchmark of 7.0%.

Equities

"Well managed companies, with strong, focused governance processes, generally produce better long-term returns for all investors"

With markets going from strength to strength in 1996 and most of 1997, a substantial correction was expected later in the year. By year end, markets were unstable with the Asian markets showing the largest declines. Nevertheless, global markets continued to provide good results through most of the year. Similarly, North American markets also provided generally good returns as did European markets boosted by fairly strong economies.

Domestic

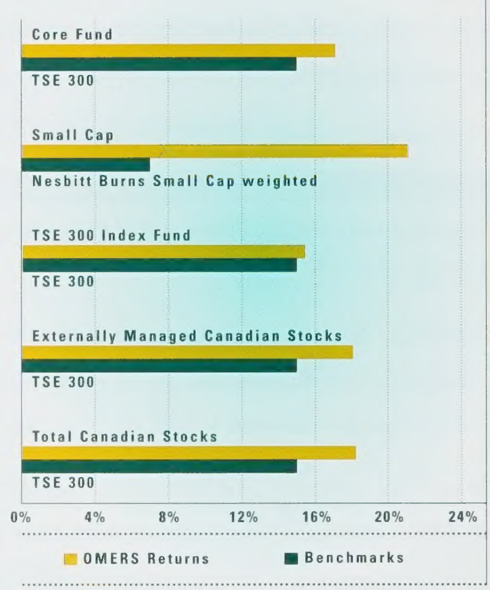
Canadian equity markets performed well throughout most of the year, resulting in an increase in the market value of the OMERS actively managed Canadian equity portfolios of $0.2 billion.

The core fund also grew by $0.2 billion in 1997, and returned 17.8% compared to a total return of 15.0 % for the TSE 300. The portfolio's four year annual average return of 17.5% also compares favourably to the TSE's average of 14.0%.

The Canadian indexed equities portfolio was valued at $1.7 billion at year end, representing 16.8% of the Fund's total. The portfolio returned 15.4% in 1997, compared to 15.0% for its benchmark, the TSE 300.

1997 CANADIAN EQUITY RETURNS VS BENCHMARKS

(1 year)



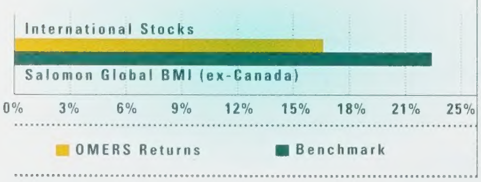
In order to provide equity investments with diversification of management style, OMERS employs external portfolio managers. The external managers also bring expertise in particular market sectors. As at December 31, the Canadian external funds programme had $2.2 billion placed with 10 external management companies. This programme saw a return of 18.3%, compared to the TSE 300's 15.0% for the year. The private equity portfolio totalled $283.3 million at year end, an increase of $ 96.3 million from the previous twelve months. Investment income earned totalled $96.5 million.

International

The U.S. external fund programme had $690 million at the end of 1997. This programme was restructured in 1996. After a stellar first year in 1996, most of the managers had a difficult 1997 because of volatile markets. However, two years is a short time on which to judge their performance, and most are near or ahead of their benchmarks since inception despite the problems in 1997.

1997 FOREIGN EQUITY RETURN VS BENCHMARK

(1 year)

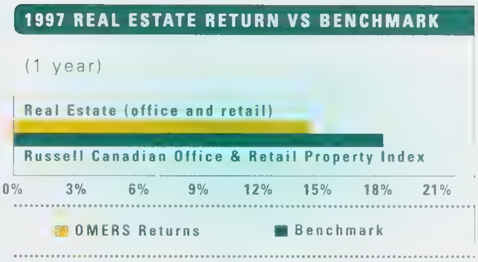


Two U.S. indexed equity funds are also managed by OMERS. One, a portfolio of larger capitalization stocks, is matched to the S&P 500 index. The other is an S&P 400 mid-cap value fund.

The OMERS non-North American composite underperformed its benchmark by 16 basis points in 1997. The programme's assets were $2.7 billion at year end, and the four-year average performance under performed its benchmark, the Salomon/FR EPAC, by 137 basis points.

OMERS Realty Corporation

By year end, OMERS Realty Corporation (ORC) owned or held an interest in a total of 37 properties comprising 19.7 million square feet of gross leasable area. All properties were well leased with an average of 97.9% occupancy.



The market value of retail and office properties held by OMERS at year end was $2.7 billion, or approximately 9.3% of the total OMERS Fund. Performance for the year showed a 14.8% total return compared to an 18.5% for the Russell Canadian Office and Retail Property Index, the industry benchmark.

Early in 1997, the Board completed a review of ORC. A report, presented to the Board in January, discussed evolving real estate best practices, analysed trends in public sector pension fund investments in real estate throughout North America, compared various organizational models, and recommended changes to position OMERS for the future and for a changing environment.

"In 1997, after study, OMERS recommitted to real estate as an asset class"

The OMERS Board adopted a multi-manager structure, with external managers augmenting ORC's role in the management of the Fund's direct real estate investments. The accountability for all real estate decisions was placed with the OMERS Board, and all real estate assets were integrated into the investment division.

These 1997 initiatives recommitted OMERS to real estate as an asset class. It is one which provides diversification of the OMERS Fund with an added hedge against inflation. Returns over the long term have been somewhat higher than bond returns and slightly lower than equity returns, with lower volatility than either bonds or equities.

MANAGING THE PLAN

There are two key elements in managing the OMERS plan's funding—maintaining a surplus position sufficient to meet the pension promise, and keeping contribution rates stable for employers and members. OMERS went one step further in 1997, initiating a plan for managing its surplus that will reduce member and employer contributions by one third for a five year period. The programme was effective with the pay period that included January 1, 1998.

"In 1997, the Board pursued new approaches for consultation with our membership"

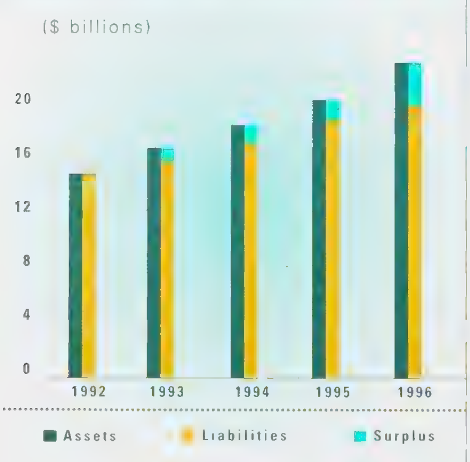
The OMERS initiative included provisions that will:

- reduce employer and member contributions by two percentage points for five years;
- increase pensions to ensure all OMERS pensioners receive 100% of the increase in the Consumer Price Index since their pensions began;
- increase the formula for all current and future surviving spouse's pensions from 60 to 66 2/3%; and
- enhance early retirement provisions for OMERS members who retire over the next five years.

OMERS will carefully monitor the initiative to ensure that the plan's 35 year track record in delivering the pension promise will not be jeopardised. A combination of high performance in investment returns, low inflation and low wage growth—and the resulting increase in the surplus—left OMERS in a position to initiate this programme.

OMERS has a long history of sound management of plan funding. In the past, responsible funding has allowed OMERS to offer such programmes as unreduced early pensions (when age and service criteria are met), and indexing. In 1993, the introduction of Social Contract early retirement and other provisions, costing approximately $425 million, saved many jobs for younger members.

ACTUARIAL ASSETS VS LIABILITIES



The surplus also provides for a Funding Stabilization Reserve (FSR), which is equal to 5% of the plan's liabilities. Key to the maintenance of contribution rate stability, the FSR also serves as a buffer against fluctuations in returns and against actuarial estimates of liabilities being different from actual experience.

The actuarial valuation of the OMERS plan as of December 31, 1996, conducted by Watson Wyatt Worldwide, showed a surplus of $ 2.8 billion.

Responsive Management

While responsiveness and responsibility are key to all of OMERS activities, they are perhaps most evident in meeting the diverse needs of the plan participants. The Board has shown its commitment to these two words in 1997 in all its decisions and actions.

Nineteen-ninety-seven was a year of considerable change and financial pressure for local government throughout the province. Many municipalities were amalgamated, with the largest being the new City of Toronto. These changes will continue to affect local governments well beyond the end of 1997.

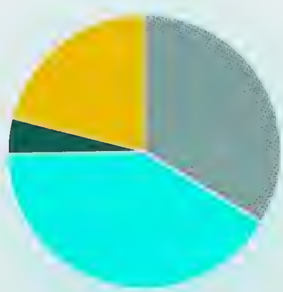
"OMERS surplus management initiative is timely in light of the many changes and financial pressures in the local government sector"

The OMERS Board continues to monitor the changing local government scene and will actively seek ways in which OMERS might help members and employers deal with these changing circumstances.

Additional recommendations before the Ontario Government include provisions for the portability of OMERS pensions to private sector plans to accommodate members who are moving to the private sector. The Board has also requested changes in the definition of "eligible OMERS employer" to permit not-for-profit organizations providing local government services to join the plan and to allow plan members who are transferred as part of a divestment or outsourcing to be grandfathered in the OMERS plan.

PENSION PROFILE

(as at December 31, 1997)



Normal Retirement	33.7%
Early Retirement	41.2%
Disability Pension	4.1%
Spouses and Children Pension	21.0%

Pension Increase

An increase of 1.62%, equalling 100% of the September-to-September Consumer Price Index (CPI) increase, was applied to pensions on January 1, 1998. The increase is composed of two parts: the guaranteed pension increase—70% of the increase in the CPI, or 1.13%; and an ad hoc increase—30% of the increase in the CPI, or 0.49%.

As part of the five year surplus management initiative, OMERS also increased payments to ensure all of its pensioners receive 100% of the increase in the Consumer Price Index since their pensions began.

Improving Service

In 1997, OMERS continued with changes to its pension communications programme. The new OMERS web site (www.omers.com) was well received by our members and provides an additional vehicle for communication. The site received more than 500,000 "hits" in eight months of operation.

"the OMERS web site gets a Benefits Canada A+ for on-line communications ingenuity"

- Benefits Canada Magazine

The Membership Services System redevelopment project saw considerable progress throughout the year with its construction phase commencing. The project, which includes the rebuilding of the OMERS pension administration computer system, will be completed early in 1999 and its improved efficiency will meet members' and employers' needs with faster and more flexible service.

Responsible Management

OMERS has a major role to play in advocating the interests of plan members in numerous arenas. As one of Canada's largest pension plans, we have a responsibility to ensure that the interests of our 260,000 active members and pensioners are heard.

Over the past year, OMERS has concentrated on tracking and monitoring issues and trends which might affect the plan and plan members. While we continue to improve member communications, it became increasingly evident that OMERS needed to formalize communications with other key audiences and stakeholder groups.

Activities such as the surplus management programme and our commitment to move to autonomy have made OMERS more visible. This higher visibility will continue for the foreseeable future. We are managing our internal and external communications in order to provide current and relevant information to our members and other stakeholders.

The "Year 2000" Problem

With the year 2000 rapidly approaching, time is at a premium to address the Year 2000 date programming code problem. Nearly every organization, including OMERS, will be faced with the Year 2000 issue. The date code problem refers to the fact that years ago program developers, to make the best use of limited computing resources, created databases and programs to store and process the year as a two-digit field (for example, 1998 as "98"). Therefore in the year 2000, many computer systems will register "00" as 1900 rather than 2000.

However, the problem is more complex than it seems. Initially, many organizations regarded this as a problem to be dealt with by their IT departments, but now are realizing that the problem is much broader. Any equipment that has a computer chip component is at risk. The Year 2000 is a general business management problem and OMERS has approached the issue from this perspective.

OMERS is conducting a comprehensive review of its core systems and programs to ensure that they are Year 2000 compliant. As well, OMERS is actively looking at the broader issues in its business areas, for example the preparedness of the companies we invest in, as well as our suppliers.

Specifically, the plan's proactive approach includes:

- completing a high level review of its Year 2000 technology exposure;
- beginning projects to ensure Year 2000 compliance for our custom-built business systems, specifically our current membership and pension systems;
- sending letters to our software and hardware suppliers concerning their level of preparedness;
- gathering information on Year 2000 issues from our "investee" companies, with follow up discussions planned where required;
- reviewing infrastructure work surrounding the electronic network and desktop computing systems; and
- communicating with employers, members and pensioners highlighting the Year 2000 issue.

"OMERS heads towards the new millennium in a very strong financial position"

OMERS is working in a planned fashion to conclude the necessary adjustments before the end of 1998 to ensure its operations can be performed correctly. It is further planned, during 1999, to test many systems, both internal and vendor provided, to ensure they actually work.

Looking Towards The Millennium

With the Fund close to $30 billion at December 31, 1997 and showing signs of continuing steady growth, OMERS heads towards the new millennium in a very strong financial position. Measured against industry benchmarks, the plan also consistently delivers efficient and high quality service at a reasonable cost.

Although OMERS looks ahead with confidence, the plan is not immune to external change. Managing change has become a focus for most organizations, and OMERS will continue to adapt to changing circumstances for its members through policy initiatives and a continued commitment to service—responsibility and responsiveness. At the same time, OMERS will continue to apply a prudent and disciplined approach to investing the Fund for maximum returns.

As the '90s wind down and we prepare to celebrate the new millennium, members can rest assured that the high levels of responsiveness and responsibility they have received for 35 years will continue.

In 1997, the OMERS Board showed sound leadership, thoughtful and speedy action, and responsible decision-making on a number of key issues which faced the organization during the year. This leadership and action will also ensure the plan's continued success and financial soundness in the future.

FIVE YEAR REVIEW OF PLAN DATA

	1997	1996	1995	1994	1993
Employers					
Municipalities	**534**	534	534	529	538
School boards	**133**	133	134	134	134
Other local boards	**462**	464	462	457	448
	1,129	1,131	1,130	1,120	1,120
Contributing members					
by employer					
Municipalities	**90,471**	92,342	94,068	94,964	95,462
School boards	**52,971**	52,495	52,926	52,637	53,076
Other local boards	**40,188**	40,775	41,283	41,397	41,638
Inactive groups	**2,521**	238	7	35	21
	186,151	185,850	188,284	189,033	190,197
by sex					
Female	**92,297**	91,557	92,146	91,618	91,001
Male	**93,854**	94,293	96,138	97,415	99,196
	186,151	185,850	188,284	189,033	190,197
by normal retirement age					
Age 65	**162,738**	162,614	165,085	165,989	167,082
Age 60	**23,413**	23,236	23,199	23,044	23,115
	186,151	185,850	188,284	189,033	190,197
Terminated members who have elected a deferred pension	**8,873**	8,754	8,532	8,163	7,947
Number of pensioners by type of pension					
Normal retirement	**23,333**	23,368	23,212	22,914	22,538
Early retirement	**28,502**	27,304	23,843	20,072	16,165
Disability pension	**2,842**	2,836	2,846	2,814	2,743
Spouses and children	**14,501**	13,850	13,261	12,628	11,987
	69,178	67,358	63,162	58,428	53,433
Total membership comprising active members, inactive members and pensioners	**264,202**	261,962	259,978	255,624	251,577
Number of members enrolled per year	**8,061**	7,285	9,225	8,440	8,112
Number of new retirements per year	**2,779**	6,271	5,459	5,804	3,688
Number of other terminations per year	**4,981**	3,448	4,515	3,800	4,018
Net increase (decrease) in active membership	**301**	(2,434)	(749)	(1,164)	406

$ Millions	1997	1996	1995	1994	1993
*Investments at market					
Ontario debentures	**804.2**	828.5	818.1	995.5	1,297.8
Marketable securities	**28,572.0**	24,787.5	20,458.9	19,650.3	18,791.3
	29,376.2	25,616.0	21,277.0	20,645.8	20,089.1
*Assets at market value for					
Total Fund	**29,108.4**	25,378.3	21,212.7	18,388.8	17,778.1
Liability for:					
Supplementary benefits agreements	**109.5**	120.6	120.6	133.9	139.3
Administered pension funds	**394.8**	341.2	344.9	2,463.3	2,361.4
	29,612.7	25,840.1	21,678.2	20,986.0	20,278.8
Investment income earned (income includes unrealized gains/losses)					
Basic plan	**3,692.2**	4,074.0	2,624.5	310.2	3,365.3
Supplementary benefits agreements	**11.4**	8.8	11.5	12.7	8.4
Administered pension funds	**50.6**	55.1	380.8	44.4	447.9
	3,754.2	4,137.9	3,016.8	367.3	3,821.6
Contributions received for					
Basic plan	**868.3**	874.1	869.1	870.0	890.0
Basic plan unfunded liabilities	**20.9**	7.5	5.4	9.3	11.6
Supplementary benefits agreements	**0.3**	0.3	1.1	0.1	0.6
	889.5	881.9	875.6	879.4	902.2
Payments to members					
Pensions paid	**698.9**	661.4	570.1	490.7	414.3
Contributions and interest refunded	**103.5**	88.5	66.7	50.7	43.5
Transfers to other plans	**8.9**	5.8	6.5	4.7	5.6
	811.3	755.7	643.3	546.1	463.4
Administrative expenditures					
Pension programme	**21.6**	19.8	19.6	19.6	18.4
Investment programme	**19.8**	17.3	15.7	15.6	14.7
Elimination on consolidation	**(1.1)**	(2.5)	(2.4)	(2.4)	(2.2)
	40.3	34.6	32.9	32.8	30.9
Total Fund annual rates of return					
Dollar-weighted return on book value	**11.9%**	10.9%	7.9%	9.5%	10.2%
Time-weighted return on market value	**14.8%**	19.3%	14.2%	1.8%	23.7%

**market value as at December 31*

ACTUARIAL COST CERTIFICATE

AS AT DECEMBER 31, 1997 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

Watson Wyatt
Worldwide

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1996 using the Unit Credit Actuarial Cost Method, with projection of earnings. Our valuation conformed with the Standard of Practice for Valuation of Pension Plans adopted by the Canadian Institute of Actuaries.

The actuarial valuation of OMERS as at December 31, 1996 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion, the data are sufficient and reliable for the purposes of actuarial valuation.

In our opinion, the assumptions adopted for our actuarial valuation of OMERS are appropriate, and the methods employed are consistent with sound actuarial principles. Nonetheless, the experience of OMERS in the future may be different from the actuarial assumptions, and may result in gains or losses which will be revealed in future actuarial valuations.

The results of the actuarial valuation of the registered pension plan benefits disclosed total Actuarial Liabilities of $19,660.126 million in respect of benefits accrued for service to December 31, 1996, including the effect of an ad hoc adjustment to pensions as at January 1, 1997. The Actuarial Assets at that date were $22,527.203 million indicating an actuarial surplus of $2,867.077 million, of which $982.967 million has been allocated to a Funding Stabilization Reserve by the Board. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 1996 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $33.199 million, leaving an overall actuarial surplus of $2,833.878 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the likely development of the Actuarial Liabilities during 1997 taking into account amendments made to the Plan up to December 31, 1997. Further, we have calculated the Actuarial Assets at December 31, 1997.

We are of the opinion, in accordance with generally accepted actuarial principles, that the assets of the Fund at December 31, 1997 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date.

Respectfully submitted

WATSON WYATT & COMPANY

Martin Brown

Martin J.K. Brown, F.I.A.
Fellow, Canadian Institute of Actuaries
March 27, 1998

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

KPMG

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 1997 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 1997 and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Toronto, Canada

March 27, 1998

CONSOLIDATED STATEMENT OF NET ASSETS

As at December 31, (000's)	1997	1996
ASSETS		
Investments (note 2)	**$ 29,376,214**	$ 25,615,971
Accrued income	**132,917**	112,958
Amounts due from pending trades	**111,033**	156,784
Contributions receivable	**73,010**	67,211
Other assets (note 4)	**34,398**	40,970
Total Assets	**29,727,572**	25,993,894
LIABILITIES		
Due to administered pension funds (note 5)	**394,844**	341,244
Amounts payable from pending trades	**102,074**	155,695
Other pension liabilities	**122,297**	118,677
Total Liabilities	**619,215**	615,616
NET ASSETS (note 6)	**$ 29,108,357**	$ 25,378,278

The accompanying notes to consolidated financial statements are an integral part of this statement.

Signed on behalf of the Board

Member

Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31, (000's)	1997	1996
INCREASES IN NET ASSETS		
Contributions (note 7)	**$ 889,546**	$ 881,886
Net investment income (note 8)	**3,692,175**	4,074,006
Total Increase	**4,581,721**	4,955,892
DECREASES IN NET ASSETS		
Benefits (note 9)	**811,338**	755,739
Administrative expenditures (note 10)	**40,304**	34,571
Total Decrease	**851,642**	790,310
INCREASE IN NET ASSETS	**3,730,079**	4,165,582
Net assets at beginning of year	**25,378,278**	21,212,696
NET ASSETS AT END OF YEAR	**$ 29,108,357**	$ 25,378,278

The accompanying notes to consolidated financial statements are an integral part of this statement.

GENERAL

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan which operates as the Ontario Municipal Employees Retirement Fund (the Fund) as provided in Section 5 of the *Ontario Municipal Employees Retirement System Act (OMERS Act)*. The System provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Fund is a contributory defined benefit pension plan which is financed by equal contributions from participating employers and employees, and by the investment earnings of the Fund. The Fund is registered under the *Ontario Pension Benefits Act*, Registration #0345983.

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who may have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest five years of contributory earnings. The pension is integrated with the Canada Pension Plan.

The *Pension Benefits Act* (PBA) of Ontario requires that participating employers fund the benefits determined under the plan. In accordance with the PBA the determination of the value of these benefits is made on the basis of a periodic actuarial valuation.

In addition to the normal retirement benefit described above, early retirement benefits, death benefits, disability waivers and pensions, and termination benefits are available to members who meet the plan requirements. Complete information may be found in the *OMERS Act* and *Regulation* or by contacting OMERS.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of real estate properties jointly owned with others.

Investments

Investments are recorded as of the trade date and are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and portfolio credit risk that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets as unrealized appreciation of investments.

Fair values of investments are determined as follows:

i) Short-term deposits are recorded at cost, which approximates fair value.

ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market values are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.

iii) Real estate, composed primarily of income producing properties, is valued based on appraised values determined annually by independent appraisers in accordance with generally accepted appraisal practices and procedures, based mainly on discounted cash flows. In performing the appraisals, certain assumptions are made with respect to future economic conditions and rates of return. Jones Lang Wootton Canada Inc. and Colliers Macaulay Nicolls Inc. are the firms of independent appraisers used.

iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk.

v) Interest rate swaps, bond and equity index swaps, bond futures contracts, equity index futures contracts, and forward foreign exchange contracts are valued at year-end market prices determined by quoted market values where available or discounted cash flows using current market yields, where quoted market values are not available.

Investment income, which is recorded on the accrual basis, includes dividends, interest income, and real estate operating income, gains and losses that have been realized on disposal of investments as well as the unrealized appreciation in the fair value of investments.

Non-Investment Assets

The fair value of contributions receivable, accrued income, amounts due from pending trades, other assets, due to administered pension funds, amounts payable from pending trades and other pension liabilities approximate their carrying amounts.

Foreign Currency Translation

Foreign currency denominated transactions, as well as amounts carried at cost in the financial statements, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

The fair values of foreign currency denominated investments included in the statement of net assets are translated into Canadian dollars at the year-end rate of exchange. Foreign exchange gains and losses arising from this translation are included in unrealized appreciation of investments.

NOTE 1 - RESPONSIBILITIES OF THE ACTUARY AND EXTERNAL AUDITORS

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and report thereon to the Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are appointed by the Board. Their responsibility is to report to the Board regarding the fairness of presentation of OMERS net assets, and changes in net assets as shown in the annual consolidated financial statements. The external auditors make use of the work of the actuary for the actuarial liabilities as disclosed in the notes to the financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

NOTE 2 - INVESTMENTS

(000's)	1997		1996	
	Fair Value	**Cost**	Fair Value	Cost
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	**$ 2,759,724**	**$ 2,759,724**	$ 1,760,895	$ 1,760,895
Canadian bonds and debentures	**5,271,673**	**4,722,144**	4,616,930	4,171,657
Non-Canadian bonds	**1,216,488**	**1,180,143**	446,098	435,283
Private debt	**112,958**	**109,739**	92,222	89,887
Mortgages	**1,264,420**	**1,206,501**	1,637,479	1,489,209
	$ 10,625,263	**$ 9,978,251**	$ 8,553,624	$ 7,946,931
NON-INTEREST BEARING INVESTMENTS				
Canadian equities	**10,366,016**	**6,509,617**	9,832,536	6,469,055
Non-Canadian equities	**5,181,943**	**3,850,514**	4,357,748	3,471,810
Real estate	**2,729,349**	**2,875,601**	2,450,121	2,786,266
Resource properties	**55,761**	**48,295**	53,964	44,486
Canadian private equities	**227,551**	**157,735**	133,005	125,166
Non-Canadian private equities	**190,331**	**158,597**	234,973	203,645
	$ 18,750,951	**$ 13,600,359**	$ 17,062,347	$ 13,100,428
TOTAL INVESTMENTS	**$ 29,376,214**	**$ 23,578,610**	$ 25,615,971	$ 21,047,359

Included as mortgages are $51,000,000 (1996 - $69,341,000) of properties acquired by OMERS on foreclosure. These properties are held for sale and are carried at appraised values based on OMERS best estimate of the properties' net realizable value. Income earned on these assets in 1997 was $3,209,858 (1996 - $1,587,000).

NOTE 2 - INVESTMENTS (continued)

Term to maturity classifications of interest-bearing investments are based upon the contractual maturity of the securities and are as follows:

(000's)	1997					1996	
	Term to Maturity						
	Within 1 Year ($)	1 to 5 Years ($)	Over 5 Years ($)	Total ($)	Average Effective Yield	Total ($)	Average Effective Yield
Cash and short-term deposits	2,759,724	-	-	2,759,724	3.97%	1,760,895	3.05%
Canadian bonds and debentures	62,094	1,632,370	3,577,209	5,271,673	5.75%	4,616,930	6.77%
Non-Canadian bonds	24,457	569,657	622,374	1,216,488	5.39%	446,098	5.80%
Private debt	25,018	19,715	68,225	112,958	7.54%	92,222	8.26%
Mortgages	279,528	601,384	383,508	1,264,420	7.44%	1,637,479	6.10%
TOTAL	3,150,821	2,823,126	4,651,316	10,625,263	5.47%	8,553,624	5.84%

Average effective yield is based upon fair value as at the year-end date.

Cash and short-term deposits include backing assets for derivative instruments. The average effective yield adjusted for interest rate derivative instruments is 4.5% (1996 - 3.6%).

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 3.9% (1996 - 4.4%) of the Canadian bonds and debentures. Non-Canadian bonds are liquid and tradeable government debt issues consisting primarily of the 12 member countries of the Organization for Economic Co-operation and Development.

At December 31, 1997 the Fund held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

($000's)	1997 Aggregate			1996 Aggregate		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Canadian equities	6	2,171,566	867,310	5	1,586,410	814,465
Real estate properties	2	693,000	621,400	4	993,377	1,056,933
Canadian bonds and debentures	2	578,270	472,040	2	590,671	502,001
	10	3,442,836	1,960,750	11	3,170,458	2,373,399

NOTE 2 - INVESTMENTS (continued)

Real estate investments above include ownership interest in the following properties, each of which are located in Toronto, Ontario: Scarborough Town Centre; and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through joint ventures. The fair value of OMERS proportionate share in these assets was $1,238,375,000 at December 31, 1997 (1996 - $1,182,580,000). The net income earned from OMERS investment in joint ventures was $65,528,000 for the year ended December 31, 1997 (1996 - $88,961,000) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of its joint ventures and is contingently liable for the obligations of its associates in certain joint venture developments. The assets of the joint ventures are available and are sufficient for the purpose of satisfying such obligations.

OMERS adheres to the concept of risk diversification in its investment policy. Part of this diversification is achieved through utilization of foreign investments. The two major foreign currencies represented in the Fund at December 31, 1997 are U.S. Dollars which represents 11.89% of the total fund (1996 - 8.37%), and Japanese Yen which represents 3.03% of the total fund (1996 - 3.48%).

OMERS participates in a securities lending programme whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 1997, securities with an estimated fair value of $782.5 million (1996 - $536.0 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $821.6 million (1996 - $562.8 million).

NOTE 3 - DERIVATIVE FINANCIAL INSTRUMENTS

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset/liability management and to assist in the management of financial risks, including foreign exchange risks.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- **Swaps**, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- **Forwards and futures**, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;

NOTE 3 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- enters into derivative investment activities in combination with the cash and short-term deposits portfolio;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

OMERS credit risk exposure is represented by the receivable replacement value of contracts with counterparties, less any pre-payment collateral or margin received, as at the reporting date. Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable.

All derivative instruments mature within one year except interest rate swap contracts with a notional value of $520,000,000 (1996 - $235,000,000) that mature between 2002 and 2004.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- **Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

(000's)	**1997**				1996	
		Fair Value		**Credit Risk**		Credit Risk
	Notional Value	**Gross Assets**	**Gross Liabilities**	**(replacement cost)**	Notional Value	(replacement cost)
Interest rate swap contracts	**$ 520,000**	**$ 21,164**	**$ -**	**$ 21,164**	$ 235,000	$ 11,301
Bond index swap contracts	**-**	**-**	**-**	**-**	200,000	2,309
Equity index swap contracts	**420,409**	**8,435**	**(20,990)**	**8,435**	220,500	8,243
Bond futures contracts	**143,545**	**710**	**-**	**710**	52,341	-
Equity index futures contracts	**892,927**	**435**	**(1,235)**	**435**	412,470	120
Forward foreign exchange contracts	**1,065,777**	**9,649**	**(3,966)**	**9,649**	442,689	8,579
TOTAL	**$ 3,042,658**	**$ 40,393**	**$ (26,191)**	**$ 40,393**	$ 1,563,000	$ 30,552

NOTE 4 - OTHER ASSETS

(000's)	1997	1996
Long term receivables (1)	**$ 27,777**	$ 34,981
Other receivables	**6,621**	5,989
	$ 34,398	$ 40,970

(1) Under the terms of the *OMERS Act* and *Regulation* certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed fifteen years. The fair value of the long-term receivables, which are valued using discounted cash flows using current market yield, is approximately $27,654,000 (1996 - $35,785,000).

NOTE 5 - DUE TO ADMINISTERED PENSION FUNDS

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University, and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund), and are credited with amounts based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

NOTE 6 - NET ASSETS

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	1997	1996
Assumed rate of inflation	**4.0%**	4.0%
Assumed rate of pensionable earnings increases	**5.5%**	5.5%
Assumed actuarial rate of return on plan assets	**7.5%**	7.5%

The extrapolation of the actuarial valuation to December 31, 1997 which follows, takes account of amendments made to the plan up to December 31, 1997, except for the Five Year Initiative, which is reported on separately. The 1996 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1996.

NOTE 6 - NET ASSETS (continued)

(000's)	**1997**	1996
Fair value of net assets at end of year*	**$ 29,100,759**	$ 25,372,297
Adjustment to the fair value for actuarial purposes	**(3,310,250)**	(2,845,094)
Actuarial value of net assets at end of year	**25,790,509**	22,527,203
Actuarial present value of accrued pension benefits at beginning of year	**19,660,126**	18,529,599
Ad hoc increases to pension benefits	**37,000**	31,211
Interest accrued on benefits	**1,478,000**	1,394,771
Benefits accrued	**893,000**	981,919
Benefits paid	**(811,338)**	(755,739)
Experience gains	**(681,788)**	(521,635)
Actuarial present value of accrued pension benefits at end of year**	**20,575,000**	19,660,126
Full earnings pension assets	**7,598**	5,981
Full earnings pension liability	**37,000**	39,180
Net liability of full earnings pension	**29,402**	33,199
	20,604,402	19,693,325
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	**$ 5,186,107**	$ 2,833,878

**Excludes full earnings pension assets*

***Before consideration of the Five Year Initiative*

A portion of the excess of actuarial value of net assets over the actuarial present value of accrued pension benefits has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 1997 is $1,029 million (1996 - $983 million).

The full earnings pension benefit was set up within the *OMERS Act* and *Regulations* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act.*

Five Year Initiative

The actuarial valuation of the plan at December 31, 1996 indicated a surplus of $2.867 billion (excludes net liability of full earnings pension $0.033 billion), giving the plan a funded ratio of 115%. Under the provisions of the *Income Tax Act*, steps must be taken to reduce the funded ratio below a maximum level of 110%; a reduction in surplus of $0.901 billion is required to accomplish this.

In anticipation of the growing funded ratio, during 1997, the OMERS Board proposed and the Ontario Government approved the following changes to OMERS:

NOTE 6 - NET ASSETS (continued)

(1) Members' and employers' contributions have been reduced by two percentage points, effective in 1998. The new rates are:

- for Normal Retirement Age 65: 4.0% of contributory earnings up to the Yearly Maximum Pensionable Earnings (YMPE), 5.5% on contributory earnings above the YMPE;
- for Normal Retirement Age 60: 5.0% of contributory earnings up to the Yearly Maximum Pensionable Earnings (YMPE), 6.5% on contributory earnings above the YMPE.

The reduction in contributions is intended to last five years, but there will be a review of the plan surplus each year to determine the size and expected period of any continuing reduction.

(2) The age plus years of service factor which entitles members to an unreduced early retirement pension has been reduced from 90 for Normal Retirement Age 65 members and 85 for Normal Retirement Age 60 members to 85 and 80 respectively for members who retire on or after November 30, 1997 and on or before December 31, 2002.

(3) The early retirement reduction factor for members not entitled to an unreduced early retirement pension has been reduced from 5.0% per year to 2.5% per year for members who retire on or after November 30, 1997 and on or before December 31, 2002.

(4) Survivor pensions have been increased from 60.0% to 66.67 % effective January 1, 1998.

(5) All pensions for retired and deferred vested members of OMERS have been increased, if necessary, to match the increase in inflation from date of retirement or termination to January 1, 1998. Similar increases have been applied to the deemed earnings of members on disability waiver.

The changes described above, plus the ad hoc inflation adjustment granted at January 1, 1998, are expected to reduce the surplus by $0.557 billion as at December 31, 1997. The surplus will be further reduced by approximately $0.3 billion during 1998 and each subsequent year while the contribution reduction is in effect. In combination, these measures will eliminate the excess surplus identified in the December 1996 actuarial report.

NOTE 7 - CONTRIBUTIONS

(000's)	**1997**	1996
Members	**$ 427,708**	$ 429,952
Employers, current service	**427,708**	429,952
Employers, long-term receivables and interest thereon (note 4)	**20,904**	7,500
Transfers from other pension plans	**6,476**	8,599
Other contributions	**6,750**	5,883
	$ 889,546	$ 881,886

NOTE 8 - NET INVESTMENT INCOME

(000's)	1997	1996
Short-term deposits	**$ 64,199**	$ 48,801
Canadian bonds	**378,497**	312,602
Non-Canadian bonds	**42,115**	27,751
Private debt	**10,828**	9,938
Mortgages	**145,926**	138,769
Canadian equities	**183,510**	214,390
Non-Canadian equities	**78,745**	62,218
Real estate	**183,746**	180,638
Resource properties	**(769)**	(1,666)
Canadian private equities	**(17,151)**	(3,795)
Non-Canadian private equities	**6,959**	3,030
Derivative instruments (1)	**94,029**	70,411
	1,170,634	1,063,087
Realized gains on disposal of investments	**1,354,525**	972,255
Unrealized appreciation in fair value of investments	**1,228,993**	2,102,582
	3,754,152	4,137,924
Less income credited to:		
Administered pension funds	**(50,572)**	(55,114)
Provision for supplementary retirement benefits	**(11,405)**	(8,804)
	$3,692,175	$4,074,006

(1) Derivative instruments include realized and unrealized income.

NOTE 9 - BENEFITS

(000's)	1997	1996
Members' pensions	**$ 698,904**	$ 661,454
Members' contributions plus interest refunded	**103,489**	88,460
Transfers to other pension plans	**8,945**	5,825
	$ 811,338	$ 755,739

NOTE 10 - ADMINISTRATIVE EXPENDITURES

a) Operating Expenses

(000's)	1997	1996
Personnel services	**$ 20,714**	$ 18,517
Transportation and communication	**1,568**	1,452
Actuarial services	**282**	430
Audit services	**366**	262
Legal services	**391**	541
Other professional services	**1,153**	568
Occupancy costs and municipal taxes	**2,281**	1,884
Systems development purchased services	**4,371**	2,445
Other purchased services	**5,034**	5,107
Equipment and depreciation	**2,858**	2,248
Materials and supplies	**1,286**	1,117
	$ 40,304	$ 34,571

NOTE 10 - ADMINISTRATIVE EXPENDITURES (continued)

b) Compensation

The following information is furnished in compliance with the *Public Sector Salary Disclosure Act, 1996.*

Employee	Position Held	1997 Compensation**	Taxable Benefits
B. Bale	Senior Portfolio Manager, Core Fund	$ 120,968	$ 334
M. Beswick	Senior Vice President, Pensions	156,986	4,872
D. Biggs*	Vice President, Bonds & Cash Management	158,641	480
J. Buie	Vice President, Corporate Planning & Budget	110,114	381
L. Burgess	Senior Portfolio Manager, Private Placements	107,704	337
R. Churcher*	Vice President, Properties (ORC)	130,047	9,400
L. Clark	Vice President, Economic Policy & Strategic Research	101,403	366
P. Friend	Senior Portfolio Manager, Private Placements	127,357	359
E. Funston	Vice President, Pension Administration	122,444	403
W. Gladstone	Senior Vice President, Finance & Administration	156,986	539
T. Gunn	Senior Vice President, Investments	215,707	704
C. Huang	Portfolio Manager, Money Market & Foreign Exchange	101,325	294
J.M. Knowlton	Senior Vice President, Finance & Treasurer (ORC)	187,959	9,578
T. Lai	Portfolio Manager, Foreign Bonds	112,397	327
M. Latimer	Managing Director (ORC)	130,000	369
D. Leckman	Vice President, Public Market Equities	154,636	495
M. MacDonald	Vice President, Investment Services	107,797	374
J. R. Morrison	Senior Vice President, Properties (ORC)	187,959	9,578
D. Peto	Manager, Equity Trading	108,660	348
G. Platt	Senior Vice President, Human Resources	122,068	431
S. Richardson	Portfolio Manager, Canadian Core Bonds	108,586	334
D. Richmond	President & CEO	214,589	8,231
C.R. Vaillancourt	Vice President, Information Services	134,891	460

** no longer employed by OMERS or OMERS Realty Corporation*

*** compensation includes salary, performance awards, and other payments excluding taxable benefits*

BOARD MEMBERS

Chair
Roger Richard
Superintendent of Finance,
Limestone District School Board
Kingston

1st Vice Chair
Susan O'Gorman
Public Health Nurse,
York Region
Public Health Department

2nd Vice Chair
Michael Fenn
Chief Administrative Officer,
Regional Municipality of
Hamilton-Wentworth

Past Chair
David Griffin
Administrator,
Police Association of Ontario

Nancy Bardecki
Director,
Municipal Finance Branch
Ministry of Municipal Affairs
& Housing

Walter Borthwick
Mayor, Wasaga Beach

David Carrington
Conservation Field Representative,
Toronto Hydro

Joanne Fulkerson
Senior Manager Human Resources,
Thunder Bay Hydro

Claude Guillemette
Reeve, East Ferris Township

Wasim Hassan
Director Utility Practices,
Municipal Electric Association

Peter Leiss
Horticulturalist, City of Toronto

Rick Miller
Fire Fighter,
Windsor Fire Department

Donald Ross
Retiree, Sarnia

EXECUTIVE COMMITTEE

Chair
Roger Richard

1st Vice Chair
Susan O'Gorman

2nd Vice Chair
Michael Fenn

Past Chair
David Griffin

INVESTMENT COMMITTEE

Chair
Wasim Hassan

Vice Chair
Peter Leiss

MANAGEMENT COMMITTEE

Chair
Joanne Fulkerson

Vice Chair
David Carrington

PENSION COMMITTEE

Chair
Donald Ross

Vice Chair
Rick Miller

SENIOR OFFICERS

Dale Richmond
President & CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance & Administration

Tom Gunn
Senior Vice President
Investments

Gillian Platt
Senior Vice President
Corporate Affairs

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
KPMG

Legal Advisor
Osler, Hoskin & Harcourt

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr D. Lewis

ORC New
Five Year
Restructuring Asset
Initiative
municipal Mix
Surplus
restructuring
Management
Corporate
OMERS
Governance
governance

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM
One University Avenue, Suite 1000, Toronto, Ontario M5J 2P1
Tel: 416-369-2400 • Toll-free: 1-800-387-0813 • E-mail: client@omers.com • Web: www.omers.com

DISPONIBLE EN FRANÇAIS

ISSN 0707-9982

PRINTED IN ONTARIO ON RECYCLED PAPER